

***Medicare Reimbursement Summit:
Seeking Equity in Medicare Payments
and Spending***

***April 29, 2002
Madison, Wisconsin***

The Medicare Challenge Facing Wisconsin

Current inequities in the way Medicare reimburses hospitals, physicians, and other health care providers have had a dramatic and negative impact on the tax burden and health care costs in Wisconsin. Inadequate Medicare reimbursement results in cost shifting that raises the cost of care for the remainder of the health care system.

Over the thirty-five years that the Medicare payment and distribution formula has been in existence, massive inequities have developed that create disadvantages for all patients, providers, and insurers in Wisconsin. Despite efforts to bring fairness to the system, these inequities still remain.

Although Wisconsin citizens pay the same Medicare payroll taxes as all other Americans, currently, Medicare beneficiaries in Wisconsin receive 25% less than the national average. In other words, Medicare dollars from Wisconsin are being used to subsidize Medicare reimbursements in other parts of the country.

Meeting the Challenge

The Office of the Commissioner of Insurance, at the direction of the Governor's Small Employer Health Insurance Task Force, has organized today's Medicare Reimbursement Summit to convene major stakeholders to examine the issues related to Medicare reimbursement inequities in Wisconsin.

The goal is to raise awareness among state and federal policymakers as well as the general public to the significant problems facing Wisconsin due to this payment disparity, discuss strategies to adequately fix the Medicare system and send a clear message that Wisconsin's hospitals providers and insurers stand united in their effort to ensure that Wisconsin receives the same benefits as other regions of the nation.

Unfair Treatment for All Wisconsin Residents

Impact on Consumers

Due to Wisconsin's low reimbursement, Wisconsin seniors are penalized by having fewer Medicare supplemental insurance options than senior citizens in other states.

In addition, the underfunding of Medicare and the unfunded costs accumulated by Medicare recipients are made up by shifting costs to the private market. This cost-shifting results in higher costs for the commercial population and thus higher health insurance premiums for non-Medicare patients and employers.

Impact on Providers

Physician services are based on a resource based relative value system (RBRVs) that tries to assure that all services are paid at the same cost rates, without assuring that payment is adequate. As a result, Medicare reimbursement of providers falls far short of the cost of producing services.

For providers, the results of the inequity between costs and payment has significantly reduced their overall financial strength and increasingly forced disproportionate costs on the private sector.

Impact on Hospitals

Wisconsin hospitals rank 45th of all states in Medicare reimbursement.

According to the Wisconsin Health and Hospital Association, losses from the Medicare program now total \$450 million annually. (When physician reimbursements are included, the shortfall reaches over \$1 billion annually.)

Rural hospitals are particularly disadvantaged because Medicare enrollees typically constitute over 50% of a rural hospital's costs. In addition, rural hospitals have lower Medicare inpatient margins than urban hospitals, and the gap has widened from less than one percentage point in 1992 to almost 10 percentage points in 1999.

Impact on Wisconsin Citizens

Wisconsin taxpayers pay the same federal taxes than the rest of the country, yet Medicare payments for hospitals and providers are lower than the rest of the country.

Identifying the Cause

The system used by Medicare to reimburse hospitals and health care providers uses a thirty-year old formula that is based on regional historical costs. At that time, health care delivery in the Midwest cost less than in other areas of the country. Today, however, health care costs in Wisconsin and the Midwest, are among the highest in the nation, yet the reimbursement mechanism does not reflect this change. The formula for reimbursement must be revised to recognize the rising cost of health care in our state.

Reason for Hope

Last year, through the Benefits Improvement Act of 2000 (BIPA), Congress took positive action to remove some of the inequities that Wisconsin and other Midwest states have identified, by reversing many of the cuts made in the Balanced Budget Act of 1997. The result was that Medicare payments for Upper Midwest states moved closer to the average for the country, however, several issues still remain.

The Problem Persists

Inappropriate application of the Medicare Wage Index continues to be a source of misallocation of Medicare funds between high wage index and low wage index areas of the country. Specifically, hospitals in high wage index areas are paid too much, and those in low wage index areas (like Wisconsin) are paid too little. Do we need to be more clear that the wage index no longer reflects the cost of doing business?

Medicare's fixed payment system is based on what an "average" hospital is paid by Medicare. Small, rural hospitals' average patient volume is much less than the Medicare average, causing the payment system to reimburse a much lower percentage of their costs.

The combination of special payment provisions and across-the-board budget cuts that Congress has made over the history of the Medicare program, has rewarded inefficiencies and has penalized cost-effective, high quality states like Wisconsin.